RAJYA SABHA

:esday, *the 15th December,* 1998/24 *Agrahayana,* 1920 (Saka)

ne House met at eleven of the Clock Mr. Chairman in the Chair.

ORAL ANSWERS TO QUESTIONS

Review of Banking Laws and Banking System

*221. SHRI O. P. KOHLI: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the Supreme Court has issued not less to the Union Government and the Reserve Bank of India over the Rs. 43,000 crore fraud by the banks and seeking review of banking laws and the banking system in the country;

(b) if so, whether Government and RBI have filed their replies to the notices and if so, the details thereof; and

(c) what steps have been taken by Government and RBI to recover loans and interests thereon speedily and to set up a fraud detecting mechanism to save banks from undergoing huge losses?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (BANKING REVENUE AND INSURANCE) (SHRI KADAMBUR M. R. JANARTHANAN): (a) to (c) A Statement is laid on the Table of the House.

Statement

(a) The Supreme Court of India has issued notices to the Union of India and the Reserve Bank of India in Civil Write Petition No. 291 of 1998 filed by 'Common Cause'. A Registered Society citing Union of India and the Reserve Bank of India as respondents. The Writ Petition seeks the issuance of a writ, order or direction, directing the respondents "to formulate definite policy laying down procedure for the recovery of loans and advances, together with interest accrued thereon, which are presently being treated as non-performing assets of banks". The contention of petitioner is that such NPAS "are causing loss to the public excheques amounting to approximately Rs. 43,577 crores plus interest accrued hereon". The amount of Rs. 43,577 crores, referred to by the petitioner relates to NPAS and not to frauds. One of the remedies sought by the petitioner is to the effect that "the banking system in the country remains handicapped in the absence of an adequate legal framework to ensure early settlement of the suits filed against the defaulting borrowers". The petitioner has contended that "this deficiency needs to be met in order to safeguard financial interests of the banks".

(b) No Sir,

(c) Reserve Bank of India/Government have advised the banks to take steps not only to check the incidence of fresh NPAS but also to take effective measures for recovery of existing NPAS. Steps taken by the Banks/ Reserve Bank of India/ Government inter-alia include the following:

(i) At the instance of Reserve Bank of India/ Government, banks have liad down their loan policy and loan recovery policy.

(ii) Banks have set up Recovery Cells at their Head Offices. Branch-wise recovery targets are fixed and recovery is monitored by the Recovery Cell. Recovery performance is reviewed at different levels within the banks.

(iii) Banks are recovering NPAS through negotiated settlements which envisage that recovery is to the meximum extent possible at the minimum expense and in a reasonable timeframe.

(iv) 10 Debt Recovery Tribunals and 1 Debt Recovery Appeallate Tribunal have been set up by the Government.

(v) The system of banking supervision has been modified and strengthened, with banks being subjected to off-site supervision in addition to on-site inspection.

(vi) Internal control systems within the banks have been strengthened.

(vii) In order to contain fresh NPAS, credit appraisal skills are being upgraded on a countinuing basis.

Central Vigilance Commission is engaged in an exercise for the preparation of a separate Chapter in the Vigilance Manual for public sector banks.

Net NPAS of the public sector banks have come down from 8.90% as on 31.3.96 to 8.13% as on 31.3.1998.

श्री ओम प्रकाश कोहली: सभापति महोदय, मैं जो प्रश्न पूछना चाहता हूं उसके तीन भाग हैं। ए, क्या अर्थव्यवस्था में व्याप्त मंदी के कारण विशेष रूप से उद्योग क्षेत्र में आई मंदी के कारण एन० पी० एज़० की वसूली में और अधिक कठिनाई आने वाली है? बी, क्या आर्थिक क्षेत्र की मंदी के कारण एन० पी० एज़० में और अधिक वृद्धि की आशंका है? क्या नई एन० पी० एज़० के सृजन होने की आशा है? सी, क्या सरकार ने ऐसा कोई आकलन किया है कि एन० पी० एज़० में से कितना ऐसा है जिसकी वसूली की सम्भावना अब शून्य है?

SHRI KADAMBUR M. R. JANARTHANAN: Sir, we have clearly stated about the NPAs in the answer. I would like to inform the hon. Member that generally NPA should not be equated with frauds. As has been stated in the reply to his question, the NPA of the banks is about Rs. 43,000 crores, and Rs. 20,000 crores is the provision. The NPA does not mean that the banks are responsible. There is a general recession in the country. The reason for the NPAs is that the units are facing so many problems. The NPA is a general phenomenon and when we compare it with other Asian countries, our NPA is very low. It is only 16.5 per cent up to date.

श्री ओम प्रकाश कोहली: सभापति महोदय, मेरे प्रश्न के सी-भाग का उत्तर नहीं मिला। मैंने यह पूछा था कि क्या सरकार ने ऐसा कोई आकलन किया है कि एन० पी०. एज़० में से कितना ऐसा है जिसकी वसूली की सम्भावना शून्य है? इस "सी" भाग का उत्तर मिल जाए तो मैं अपना दूसरा पूरक प्रश्न पूछ पाऊंगा।

SHRI KADAMBUR M. R. JANARTHANAN: Sir, I would like to inform about the category of NPAs' asset classification; sub-standard amounting to Rs. 14,463 crores; the percentage of gross loss is five per cent; the doubtful comes to Rs. 25,818 crores; and the less-asset comes to one per cent. All these are the categories which are considered to be irrecoverable.

श्री ओम प्रकाश कोहली: सभापति महोदय, मेरा दूसरा पूरक प्रश्न है कि बैंकों के एन० पी० एज़० की कुल धनराशि कितनी है और उस पर देय ब्याज को भी अगर जोड़ लिया जाए तो यह कुल राशि कितनी बनती है? प्रश्न का दूसरा भाग है कि कुल एन० पी० ए० में लघु क्षेत्र और ग्रामीण क्षेत्र के एन० पी० ए० का अनुपात क्या है और तीसरा, ऋण वसूली ट्रिब्यूनल ने अब तक कितने मामले निपटाए हैं और कितनी रकम की वसूली की है?

SHRI KADAMBUR M. R. JANARTHANAN: The number of cases pending before the Debt Recovery Tribunal is 16,107. According to the Debt Recovery Tribunal, the total amount involved is Rs. 12,951 crores. Sir, the number of cases decided as on 31.03.1998 is 2,279 and the amount involved is, Rs. 1,168 crores. The number of cases pending, as on 31.03.1998, with the DRT is 13,836 and the amount involved is Rs. 11,794 crores.

SHRI SANATAN BISI: Sir, the hon. Minister has not replied about the setting up of a "fraud-detecting machinery." There was a reply about prevention of fraud, issue of comprehensive guidlines, review of fraud-safeguards and snap inspection system. I want to know from the hon. Minister as to which are the areas which can be called as "fraud-prone areas."

SHRI KADAMBUR M. R. JANARTHANAN: Sir, there is no such thing as a "fraud-prone area." The Paneerselvam Committee has identified the causes for the NPAs and the slump in recovery. There are internal and external causes. The Committee has also said that there are certain causes which are beyond the control of banks, like; general slowdown in the economy, recessionary trends in certain industries, depressed capital market leading to delay in completion, court cases and some pollution problem. These are all the reasons for the NPAs. Therefore, there is no such thing as a "fraud-prone area."

SHRI K. R. MALKANI: Sir, the hon. Minister has said that the amount of Rs. 43,000 crores, referred to by the petitioner, relates to the NPAs and not fraud. Part (a) of my question is: how does the hon. Minister know whether non-performing assets are not due to fraud? Sir, loans were given to parties who should have never got it. So, the fraud could be a very significant part of the NPAs.

Part (b) of my question is: if the hon. Minister makes a distinction between NPAs and fraud, would he like to let us know the figure in regard to fraud? I mean, fraud, in terms of so many thousands of crores of rupees.

Part (c) of my question is: does the hon. Minister put the affairs of the Indian Bank under NPAs or fraud?

SHRI KADAMBUR M. R. JANARTHANAN: Sir, the case relating to the Indian Bank is under investigation. It is going to be finalised very soon.

SHRI K. R. MALKANI: Is it under fraud or under NPAs?

SHRI KADAMBUR M. R. JANARTHANAN: The maximum percentage of NPAs is with the Indian Bank.

SHRI K. R. MALKANI: How much is that?

SHRI KADAMBUR M. R. JANARTHANAN: It is more or less 26 per cent... *(Interruption)*... It is under investigation.

SHRI K. R. MALKANI: Sir, it is *sub judice.*

SHRI KADAMBUR M. R. JANARTHANAN: Yes, Sir. It is *sub judice.* It is under intestigation. There may be some fraud. I am not denying that. All NPAs should not be equated with fraud. That is my answer.

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): Sir, the banks maintain accounts of NPAs and frauds separately. As far as the figures in regard to frauds are concerned, as on 1997, it was Rs. 2,90 crores. This figure had come down from Rs. 3,11 crores in the previous year.

SHRI BRATIN SENGUPTA: Sir, the hon. Minister's statement still talks about the RBI's proposal for a negotiated settlement and a reasonable time-frame for recovery of money. There is no talk about penal action, penalty, legal action or any kind of drastic action that the cases deserved. Is somebody trying to shield the abuse of public money by the different commercial banks, since the nationalisation of those banks in our country?

SHRI KADAMBUR M. R. JANARTHANAN: Sir, there are RBI guidelines for compromise settlement; for maximum recovery at minimum expense. A bank is bound to recycle funds instead of going in for expenditure on legal proceeddings. Sir, the hon. learned Member is laughing.

MR. CHAIRMAN: I do not know why the hon. Member is noticing his laugh.

SHRI KADAMBUR M. R. JANARTHANAN: Sir, I have to listen to every sound of the hon. Member.

MR. CHAIRMAN: You cannot reply that. *(Interruptions)*

SHRI KADAMBUR M. R. JANARTHANAN: As far as the amount of NPA loan is concerned, if the expense is more, there are RBI guidelines in regard to compromise settlement. But they are not in regard to frauds. In regard to frauds, the accountability is fixed and action is taken thereof.

SHRI M. VENKAIAH NAIDU: Sir, the main question of fraud has shifted to NPA. The sum and substance of the entire issue is that large-scale frauds have taken place in some nationalised banks. So, that being the case, and even as per part 'C' of the question, I would like to know what steps have been taken by the government and the RBI to speedily recover the loans and interest thereon and to set up a fraud-detecting mechanism to save the banks from undergoing huge losses. The entire country is aware that there was a large-scale fraud and a scam—the share scam—which involved money of the nationalised banks. The hon. Minister has just now said that more than Rs. 3000 crores were involved in that fraud. Rs. 3000 crores is not an ordinary amount, but the Minister of State is just saying that an inquiry is going on. Frauds were reported in the Indian Bank and in the other banks also. Will the hon. Minister come forward to explain to us in detail as to in which banks the frauds have been committed? What action has been taken in this regard? Why is there a delay in investigation? Is it because some powerful politicians are involved in this? Or, are there some other reasons for it? Simply saying that the matter is *sub judice,* is not sufficient: We are not going into the merits of the case. Will the hon. Minister take the House into confidence in this regard?

SHRI KADAMBUR M. R. JANARTHANAN: Sir, we have bank-wise figures in regard to frauds, which have taken place over the years. We have strengthened the arrangements not only for preventing frauds, but also for punishing those who are involved in such frauds. The hon. Member must be aware of the fact that each bank has a Chief Vigilance Officer, whose sole responsibility is to make sure that frauds do not take place. He has also to see that if there are frauds, they are swiftly dealt with. We are also in touch with the Centrtal Vigilance Commission to prepare a separate vigilance manual for the banks so that more effective action could be taken. The Reserve Bank of India also issues instructions to banks from time to time in order to prevent frauds from taking place. The figures indicate that there has been a decline in the cases of frauds during the last two years. I do not know if it is a trend. But effective action is the only guarantee against frauds. As far as the Indian Bank is concerned, the House is aware that this matter is under investigation and the investigation is being monitored by the Supreme Court of India. As far as the Government is concerned, we are fully cooperating in the investigation. We have no desire to save anyone who is involved in the fraud.

SHRI S. M. KRISHNA: Sir, the hon. Minister has said that Rs. 2,900 crores was involved in the fraud. The hon. Minister has also just now said that the Chief Vigilance Officer and the Central Vigilance Commissioner have been asked to keep an eye on it. Under the Indian Penal Code, fraud in the banks is a major criminal offence. I would like to know as to how many persons have been prosecuted; how many of them have been sentenced till now. You have been saying that frauds in the banks have been going on for the last few years. Now, I would like to know as to in how many cases prosecutions have been launched and in how many cases the banks have been able to come down heavily on those who are convicted of defrauding the banks.

SHRI YASHWANT SINHA: Sir, as far as the frauds are concerned, I have put before the House the general picture. As far as the number of cases etc. is concerned, that figure we will collect and

make it available. But as far as the Indian Bank is concerned, 33 cases have been registered and two charge-sheets covering seven cases have been filed. There would be a number of cases involving bank frauds; we will collect the information and make it available.

SHRI GURUDAS DAS GUPTA: Sir, the hon. Finance Minister categorically says that the Government of India has set up a mechanism to ensure that frauds do not take place; and if frauds take place, then, people are punished expeditiously. He has just made that claim. He is ready to inform the House about the outcome of the investigation. The biggest fraud that took place in the bank is the security scam where Rs. 10,000 crore was defrauded by the brokers, including the leading brokers of the Bombay Stock Exchange. I would like to know from the Finance Minister whether it is fact that most of the cases in relation to that fraud are still pending. I would also like to know whther it is fact that one of the leading scam masters is again back in the business, swindling the Bombay Stock Exchange. He has been found to be involved in swindling the Bombay Stock Exchange, as per the recent report of the SEBI.

Part (c) of my question is this. I would like to know whether it is true that in many parts of the country, the loan recovery tribunals are not functioning and that they are not having even offices.

SHRI YASHWANT SINHA: As far as part (a) of the question about security scam is concerned, the hon. Member is as much aware as I am, that the matter was being inquired into by a Joint Parliamentary Committee. The SEBI simultaneously took up the matter. As it completes the investigation, charge-sheets are filed before the Special Court. That action is going on.

As far as the specific information in regard to each case is concerned, I will have to collect it because it does not arise from this question.

As far as the second part of the question is concerned, he has not named the broker. So, I do not know whom he is referring to. But if he is referring to ...*(Interruptions)*

SHRI GURUDAS DAS GUPTA: He is Harshad Mehta. He is the prime accused. He is back in the business and the recent SEBI report identifies him of being involved in manipulating the share prices of the Bombay Stock Exchange again.

SHRI S.M. KRISHNA: He has also been writing articles in newspapers. *(Interruptions)*.

SHRI GURUDAS DAS GUPTA: So respectable is the man!

SHRI YASHWANT SINHA: I would only like to say that as far as the gentleman whom the hon. Member has just now named is concerned. *(Interruptions)*

SHRI GURUDAS DAS GUPTA: A gentleman!

SHRI YASHWANT SINHA: For me, every body is a gentleman.

SHRI GURUDAS DAS GUPTA: He is the prime accused. Why do you call him a gentleman? He is the prime accused in the scam *(Interruptions)*. I named him; he is Harshad Mehta. *(Interruptions)*

SHRI YASHWANT SINHA: Then, what should I call him? *(Interruptions)*

SHRI GURUDAS DAS GUPTA: ....then why do you call him a gentleman?

SHRI YASHWANT SINHA: Because you did not refer to him as an accused.

SHRI GURUDAS DAS GUPTA: Sir, I named him; he is Harshad Mehta. He should be referred to as an accused, and not as a gentleman.

SHRI YASHWANT SINHA: We continue to differ on this. I cannot use the same language which Shri Gurudas Das Gupta used. *(Interruptions)*. Neither he can force me to use the language which he used.

SHRI GURUDAS DAS GUPTA: I cannot force. How can I say that? You are the Finance Minister; how can I force you?

SHRI YASHWANT SINHA: As far as Mr. Harshad Mehta is concerned, his licence for trading in the stock market as a broker stands cancelled. The case to which the hon. member has referred does not result from his trading in the market, but it results from some people trading at his behest. That matter is still under inquiry by the SEBI. We still have to get the final report.

As far as DRTA is concerned, it is true that there have been some vacancies. The vacancies are filled up by Judicial officers. If somebody is promoted, there is a vacancy. We are in touch with the authorities so that these are filled up as quickly as possible and the DRT all over the country function effectively.

Financing of Equity Shortfall of Large Projects by FIs

*222. SHRI DIPANKAR MUKHERJEE:
SHRI NILOTPAL BASU:

Will the Minister of FINANCE be pleased to state:

(a) whether Government's attention has been drawn to the news-item captioned "FIs to finance equity shortfall of large projects" which appeared in the "Business Standard" dated 9th September, 1998;

(b) if so, whether the same policy would be followed for public sector projects where loans can turn into non-performing assets if implementation is delayed due to shortfall in equity funding; and

(c) if not, the reasons therefor;

† The question was actually asked on the floor of the House by Shri Dipankar Mukherjee.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE, BANKING, REVENUE AND INSURANCE (SHRI KADAMBUR M.R. JANARTHANAN): (a) to (c) A statement is laid on the Table of the House.

Statement

(a) Yes, Sir. Industrial Development Bank of India (IDBI) has reported that decision for providing financial assistance to individual cases is based on the merits and viability of proposals. In respect of already assisted large projects, Financial Institutions (FIs) consider proposals for providing additional need based financial support in the form of equity or other forms of assistance so as to prevent the investments already made in such projects from becoming infructuous and save the financial stake of the institutions. The need, extent and the form of assistance in each case would be determined on the basis of the promoters willingness and capacity to increase their own contribution, the physical progress achieved in implementation of the project and the funds tied up from other sources to meet the shortfall in equity arising out of the company's inability to raise equity capital due to depressed capital market conditions. FIs in such cases invariably ensure that after taking into account the revised means of finance, especially additional funding by the FIs, the projects would continue to meet the viability norms and be able to service the equity loan.

(b) FIs do not make any distinction between private and public sector projects for providing such need based additional assistance, so long as they are in the category of already-assisted units of the institutions and satisfy the various aspects mentioned in (a) above.

(c) Does not arise.

DR. GOPALRAO VITHALRAO PATIL: Sir, we want half-an-hour discussion on this question.

MR. CHAIRMAN: Kindly give a notice for that.